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STATEMENT OF
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DIRECTOR
FINANCIAL AND GENERAL MANAGEMENT STUDIES DIVISION
BEFORE THE
SUBCOMMITTEE ON FISCAL AFFAIRS AND HEALTH
COMMITTEE ON THE DISTRICT OF COLUMBIA
HOUSE OF REPRESENTATIVES

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ON
[PROPOSED INCREASE IN FUNDS AUTHORIZED
FOR THE TEMPORARY COMMISSION ON FINANCIAL
OVERSIGHT OF THE DISTRICT OF COLUMBIA]

Mr. Chairman and Members of the Subcommittee:

We appreciate your invitation to be here today to present our views on proposed legislation to authorize additional appropriations for the Temporary Commission on Financial Oversight of the District of Columbia and for other purposes. If enacted, the proposed legislation would amend Public Law 94-399, approved September 4, 1976, entitled "An Act to provide for an independent audit of the financial condition of the government of the District of Columbia" to authorize an additional 22 million dollars for the Commission.

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We support the proposed legislation because we believe that without it the Commission will be unable to fulfill the responsibilities assigned to it by Public Law 94-399. In essence, Public Law 94-399, as amended, requires the Commission, through contractors, to (1) improve the District government's financial

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planning, reporting, and control systems; (2) prepare procedures for ongoing training programs for District government employees who will operate the improved systems; (3) help the District government implement the improved systems, and (4) audit the District government's financial statements for fiscal years 1980, 1981, and 1982.

Although the Commission and its contractors have made excellent progress, much remains to be done. The remaining work can only be done if additional funds are provided. Public Law 94-399 authorized 16 million dollars for the Commission's work. Through March 1979 a total of 15 million dollars had been appropriated and about 14.4 million dollars had been obligated. Therefore, of the 16 million dollars authorized, the Commission has only about 1.6 million dollars remaining.

At the request of the Chairman of the Commission, Thomas F. Senator Eagleton, we recently made a limited study of the status of the Commission's work and attempted to identify the work that remained to be done. The results of our study were contained in our report to him dated February 12, 1979. Subsequently, he asked the Executive Director of the Commission, the District government's Assistant City Administrator for Financial Operations, and me to estimate the increase in authorization needed to complete the Commission's work. We estimated that an increase of 22 million dollars should be sufficient.

For the purpose of our study we divided the Commission's remaining work into four categories. The categories and the cost estimated for each are as follows.

The first category was work which the Commission considered necessary to complete projects which had been started and some additional improvements which Arthur Andersen & Co., the audit contractor, considered necessary to give a favorable audit opinion on the City's financial statements. This category also included the cost of the audits and the Commission's salaries and expenses. A listing of the work included in this category is attached to my statement as Appendix I. The cost for this category of work was estimated to be \$7,015,000.

The second category was seven tasks which we believed were necessary to complete the projects which had been started. That is, tasks which we believed the Commission should have included in category I. The Commission had not included these tasks in the first category because they considered them to have a lower priority. However, the Executive Director of the Commission and the City's Assistant Administrator for Financial Management agree with us that these tasks are important and should be performed. A listing of the seven tasks is attached as Appendix II. The cost for this category of work was estimated to be \$1,250,000.

The third category of work identified during our study consisted of financial systems and operations which are in need of improvement but for which work had not been started. The Executive Director of the Commission recognized that these systems and operations needed improvement, but he was unable to start the work because of the shortage of funds. These systems and operations are listed in Appendix III.

Some may say that these improvements are unnecessary because it may be possible to obtain a favorable audit opinion without them. We do not agree that they are unnecessary. It should be understood that the receipt of a favorable audit opinion does not necessarily mean that the financial management systems are operating efficiently and effectively. A system may produce account balances that are acceptable to an auditor, but not be able to serve the public the way that it should or produce accurate and timely information for the Congress, City officials, and others with a need for information.

The improvement of these systems would also provide the District government with monetary benefits. These benefits would include an increase in revenues, increase in the amount of cash available to invest, decrease in interest expense because of reduced indebtedness, reduction of operating costs, prevention of fraud, and improved control of property. We estimated that the monetary benefits would be such that the cost of improving the systems could be recovered in 2 to 3 years.

The cost for the third category of work was estimated to be \$8,000,000.

The fourth and final category of work was a series of tasks which must be performed to effectively implement the new systems. The Commission had assigned these tasks to the District government. However, it now appears that the District government will not be able to perform all of these tasks

before October 1, 1979, without contractor assistance. If these tasks are not performed before October 1, 1979, the Commission may not meet its objective of a 1980 audit.

The principal tasks for which contractor assistance may be needed are listed in Appendix IV. In general terms, assistance may be required to prepare operating manuals and desk instructions, operate the systems until a sufficient number of qualified people can be recruited and trained, provide supervision until the District government can acquire or train an adequate number of supervisors, and monitor the operations of the new systems for the first few months after they are implemented. The cost for this category of work was estimated to be \$9,284,000.

Let me summarize the costs we have been discussing.

\$12,451,208 was obligated to January 1, 1979.

7,015,000 is needed to perform the work the Commission considered necessary to complete projects which have been started and for various other purposes.

1,250,000 is needed to perform the seven tasks which we considered necessary to complete the projects which have been started.

\$8,000,000 is needed to improve systems and operations on which work had not been started.

9,284,000 is needed to provide implementation assistance to the District government.

These costs total \$38,000,208. That is a lot of money. However, this amount compares favorably with the cost originally estimated for the Commission's work when you exclude the cost of items not included in the original estimate. The items which were not in the original estimate are:

- the assistance to the District government described earlier as category four (\$9,284,000),
- computer support (\$2,494,000),
- telecommunications (\$275,000),
- check-writing software (\$28,909),
- audits and audit preparation (\$2,520,000), and
- Commission salaries and expenses (\$1,250,000).

The cost for these items totals \$15,851,909. Without that cost, the present estimate would be just over 22 million dollars. Considering inflation, this amount is not significantly different than the 20 million dollars originally estimated by Arthur Andersen & Co. and affirmed as a reasonable estimate by the Comptroller General during hearings before the Senate Committee on the District of Columbia on June 28, 1976.

Section 1.(b) of the proposed legislation provides that the increase in the authorization will be effective October 1, 1979. If this provision is retained, it is doubtful that the new central system can be implemented on October 1, 1979, as planned by the Commission. This, in turn, would delay the first audit from fiscal year 1980 to 1981.

That concludes my statement Mr. Chairman. We will be pleased to try to answer any questions that you and other Members of the Subcommittee may have.

CATEGORY I

Work identified by Commission
to complete ongoing projects
and other items requiring funds

1. FMS cash management system
2. FMS payroll/personnel subsystem
3. Water-sewer billing system
4. Supply management system
5. Welfare eligibility system
6. Hospital information and billing system
7. Traffic ticket control system
8. Audit preparation
9. Audits
10. Commission staff and expenses

CATEGORY IIWork identified by GAO
to complete systems being developed

1. Design and implement an improved cash forecasting and investment segment for the cash management system.
2. Correct weaknesses in the security of computers at the SHARE computer center.
3. Identify and establish the value of the District government's real property and leasehold improvements.
4. Design and implement a central system for collecting delinquent accounts.
5. Design and implement a billing system for Glenn Dale Hospital.
6. Design and implement improvements in the Traffic ticket operations of the Metropolitan Police Department and Superior Court.
7. Document procedures for the manual operations of the information and billing system at D.C. General Hospital.

CATEGORY IIISystems and operations in need
of improvements for which
work has not been started

1. Design and implement one new tax system and improve two existing systems.
2. Design and implement a new public housing rent establishment system.
3. Improve existing system for controlling Redevelopment Land Agency's property.
4. Prepare detailed instructions for computing each of District government's user charges and fees.
5. Design a parking meter collection system.
6. Design a check printing system.
7. Improve existing business licenses system.
8. Improve existing deeds and corporate filings system.
9. Design and implement a new University tuition and fee accounting system.
10. Design and implement a new solid waste billing system.
11. Improve manual financial management system for stadium and armory operations.
12. Other systems which may be in need of improvement:
 - D.C. Village billing
 - Forest Haven billing
 - Health clinic billing
 - Library fees
 - Abandoned property inventory
accounting and sales
 - City council

CATEGORY IVImplementation Assistance

1. Establish policies and prepare top level instructions.
2. Prepare organization and staffing plans
3. Prepare operating manuals not assigned to contractors.
4. Prepare space layouts and identify required furniture, office equipment, telephones, etc.
5. Prepare desk instructions.
6. Develop and conduct training programs not assigned to contractors.
7. Develop computer master table values.
8. Develop and conduct systems evaluation and acceptance tests.
9. Correct data in existing systems which will be entered into new systems.
10. Develop contingency capability for system continuity in the event of disruptions.
11. Operate the systems.
12. Monitor operation of new systems after implementation.